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SUBJECT: LUGO'S AMCHAM SPEECH LACKS SUBSTANCE

Classified By: DCM Michael J. Fitzpatrick; reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: Patriotic Alliance for Change (APC) presidential candidate Fernando Lugo outlined his six-point plan for governing to the Paraguayan-American Chamber of Commerce March 11. Three goals were economic -- agrarian reform, "economic growth with social equity," and "emergency" job creation to jump-start the economy, with a transparent tax collection system and an independent Central Bank as sub-themes. Lugo attempted (unsuccessfully) to dispel rumors that he might be inclined to promote a greater state role in the economy by affirming his belief in a mixed economy. Strengthening institutions and reforming the justice system were Lugo's fourth and fifth points; he underlined the need to "depoliticize" the judicial system and protect its independence, thus ensuring rule of law. The sixth point involved "recovering Paraguay's political, economic and hydroelectric sovereignty." A fatigued, casually dressed Lugo presented some good ideas, but as is now customary, provided little detail on how he planned to achieve his goals. A Lugo insider told Pol/Econ chief that "this is Lugo's election to lose." If Lugo continues to perform as he did at the AmCham in this high season of presidential debates -- neither looking nor sounding very presidential -- his lead may well slip away. END SUMMARY.

LUGO ON ECONOMICS

¶2. (SBU) Three of APC candidate Lugo's goals were economic -- agrarian reform, "economic growth with social equity," and "emergency" job creation to jump-start the economy. Lugo quoted Pope John Paul II as stating that "work is part of the human vocation." Work, Lugo asserted, should be the center of all change in Paraguay. He added that "the best social policy is to create jobs," as extreme poverty is a "danger for society." Lugo envisioned an "integrated, pragmatic society" that generates wealth with "well-being for all." He advocated access to credit for small producers and other (unspecified) protections for small enterprises. Lugo also said he will guarantee and promote private property ownership and facilitate the titling of land.

¶3. (SBU) Lugo emphasized the need for a transparent tax collection system "if Paraguay wants to be a serious country," and the importance of an independent Central Bank. He spoke about a culture of tax evasion and urged public education on the importance of paying taxes, as well as exploration of means to facilitate tax payment and collection. Without providing details, he also outlined plans to improve the quality of public spending, to link fiscal and monetary policies, and to create a transparent debt policy.

¶4. (SBU) Lugo attempted (unsuccessfully) to dispel rumors that he might be inclined to promote a greater state role in

the economy. He said he believes in a mixed economy, with equilibrium between the private sector and a more-efficient public sector (free of political quotas for state employment). Lugo stated his opposition to public or private monopolies, and said he plans to promote agreements between the Paraguayan state and the private sector. He mentioned the importance of injecting private capital (both national and international) into the state. Lugo also noted (in passing) his plan to formalize the Paraguayan economy, and particularly in Ciudad del Este, by "cleaning up commerce."

INSTITUTIONAL REFORM

15. (SBU) Strengthening institutions and reforming the justice system were Lugo's fourth and fifth points; he underlined the need to "depoliticize" the judicial system and protect its independence, thus ensuring rule of law. Lugo lamented that Paraguay is unpredictable in terms of judicial security. When asked how he would handle corrupt Supreme Court judges, Lugo responded that they could be impeached, but that he preferred constitutional reform as a means to change. Lugo suggested that a neutral international body like the Organization of American States (OAS) could help select Paraguay's judges based on their qualifications, as opposed to political criteria.

REGIONAL RELATIONS

16. (SBU) The sixth point in Lugo's program is to "recover Paraguay's political, economic and hydroelectric sovereignty." Lugo said he worries about Paraguay's reputation abroad and wants good relations with all countries (NOTE: Lugo never mentioned the United States specifically during his speech. END NOTE.) He focused on deepening relations with Mercosur and commercial relations beyond Mercosur, and asserted that Mercosur should protect its "junior partners" Paraguay and Uruguay as the European Union did with Spain. Lugo added that Paraguay must renegotiate its binational treaties with Brazil (Itaipu) and Argentina (Yacyreta) and become greater energy suppliers.

LUGO'S ALLIANCE FOR CHANGE

17. (C) Lugo admitted that managing the 11 different parties and 4 social movements which comprise the APC is "not easy with respect to controversial topics, but not impossible." He said the Alliance, only seven months old, isn't a magic or perfect solution for Paraguay. Lugo said he enjoyed being part of a "pluralist experience without exclusions," asserting that "if the modern world has one characteristic, it's pluralism." Lugo suggested using the Chilean (leave difficult topics in the "freezer") or Uruguayan (round table discussions of difficult issues) models to work through the Alliance's ideological differences.

COMMENT

18. (C) Lugo presented some good ideas to his AmCham audience, but as is now customary, provided little detail on how he planned to achieve his goals. Casually dressed and obviously fatigued from his whirlwind trip to Buenos Aires, where he met with President Kirchner, Lugo relied heavily on his notes for the more technical, economic aspects of his discourse. Throughout his speech, he sounded unpolished and out of his element. When pressed on his economic plans, Lugo repeatedly responded that he would organize a dialogue to flesh out his policies. And most importantly for this audience, Lugo failed to assuage one of the business communities' biggest concerns -- that he may expand the state's role in the economy. New Lugo advisor and former

Liberal vice-presidential candidate Carlos Mateo Balmelli admitted March 12 to Pol/Econ Chief that Lugo's performance was disappointing, blaming an inexperienced campaign manager for overscheduling and underpreparing Lugo. Balmelli, confident regarding Lugo's lead in the polls, quipped that "this is Lugo's election to lose." If Lugo continues to perform as he did on this occasion -- neither looking nor sounding very presidential -- his lead may well slip away.
END COMMENT.

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